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STATE FOR EUR/CACEN AND EB/IFD/OIA;  
STATE PLEASE PASS TO OPIC AND USTR  
ANKARA FOR FCS  
DEPT PASS TO TDA FOR STEIN, EXIM FOR GLAZER  
COMMERCE FOR 4231 ITA/MAC/ORUE FOR DSTARKS  
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SUBJECT: AZERBAIJAN: INVESTMENT CLIMATE STATEMENT 2008

REF: STATE 158802

**¶1.** This cable contains post's Investment Climate Statement for 2008. The Statement includes the following sections:

Introduction

- A.1. Openness to Foreign Investment
- A.2. Conversion and Transfer Policies
- A.3. Expropriation and Compensation
- A.4. Dispute Settlement
- A.5. Performance Requirements and Incentives
- A.6. Right to Private Ownership and Establishment
- A.7. Protection of Property Rights
- A.8. Transparency of the Regulatory System
- A.9. Efficient Capital Markets and Portfolio Investments
- A.10. Political Violence
- A.11.a. Corruption
- A.11.b. Bilateral Investment Agreements
- A.11.c. OPIC and Other Investment Insurance
- A.11.d. Labor
- A.11.e. Foreign Trade Zones/Free Ports
- A.11.f. Foreign Direct Investment Statistics

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INTRODUCTION  
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**¶2.** Azerbaijan's continued efforts to modernize and reform its economy into a market economy presents both significant prospects and challenges. Many outdated laws have been replaced with modern legislation to encourage foreign investment, to protect intellectual property, to permit bankruptcies, and to rationalize the Government's revenue collection policies. Since the mid-1990s, Azerbaijan has successfully executed a strategy to develop its oil and gas resources and has begun to receive energy revenue inflows. Much work remains to be done, however, to produce prosperity for the country's population of eight and a half million. This includes improving governance and curbing corruption, diversifying the economy through domestic and foreign investment, and creating jobs. A long running and unresolved conflict with Armenia over Nagorno-Karabakh has left Azerbaijan with approximately 800,000 refugees and internally displaced persons (IDPs) for more than a decade and constitutes an enormous burden on economic and democratic development. The World Bank estimated in 2005 that 24 percent of the population lived in poverty, with slightly more than nine percent in extreme poverty. Poverty remains

particularly acute in Azerbaijan's regions, and developing an environment in which private investors can help create employment opportunities in the regions remains an imperative for Azerbaijani policymakers.

¶3. Cooperation with the international financial institutions has been a key element in Azerbaijan's reforms efforts. Azerbaijan is a member of the International Bank for Reconstruction and Development (IBRD), the European Bank for Reconstruction and Development, the International Monetary Fund (IMF) and the Asian Development Bank. Azerbaijan is not yet a member of the World Trade Organization, but USAID is providing assistance in preparing Azerbaijan's bid for accession. Azerbaijan's macroeconomic situation continued to improve in 2007. According to the National Bank of Azerbaijan, compared to the first 11 months of 2006, GDP increased 25.4 percent and reached USD 24.6 billion. Developments in the oil and gas sector continued to be the primary force behind this growth. Oil and gas production increased 30 and 61 percent respectively. Inflationary pressures increased in 2007 with estimates ranging from 18 to 27 percent through November 2007.

¶4. The national currency, the manat, appreciated approximately 3.1 percent in real terms against the U.S. dollar in 2007. The nominal exchange rate was approximately 1 USD = 0.845 AZN as of January 1, 2008. The National Bank's currency reserves grew 75.6 percent and reached USD 3.5 billion in December 2007. The State Oil Fund continued to play a critical role in promoting macroeconomic stability and in sterilizing massive energy revenues. As of September 30, 2007, the Oil Fund had more than USD 2 billion in assets. In 2008, the Government of Azerbaijan is expected to receive approximately USD 5 billion in additional energy revenues.

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Over the next 15 years, Azerbaijan is expected to receive more than USD 200 billion in energy revenues.

¶5. With completion of the Baku-Tbilisi-Ceyhan oil pipeline and the South Caucasus gas pipelines in 2006, the nature of business activity within the energy sector is shifting from infrastructure construction to services provision. In 2007 the BTC pipeline transported approximately 750,000 barrels of oil a day from Azerbaijan's offshore Azeri-Chirag-Gunashli (ACG) field. In addition, the South Caucasus Pipeline (SCP) transported natural gas from Azerbaijan's offshore Shah Deniz field to Turkey and Georgia. Azerbaijan has taken significant steps to implement the Extractive Industries Transparency Initiative (EITI), which promotes oil revenue transparency. Azerbaijan remains an active participant in the Extractive Industries Transparency Initiative (EITI). In June 2007, the United Nations awarded Azerbaijan and its State Oil Fund a public service award for its work to improve transparency, accountability and responsiveness in public service.

¶6. Corruption is a significant deterrent to investment in Azerbaijan, especially in the non-energy sector. Laws and regulations that exist to combat corruption are not effectively enforced, with corruption in the regulatory, tax, and dispute settlement systems most pervasive. Problems in the quality, reliability, and transparency of governance, as well as abuse of the regulatory system and poor contract enforcement, significantly impede the ability of many companies to do business in Azerbaijan. These problems have driven many companies, including some major Western firms, from the market. In the summer of 2007, the government took several positive steps aimed at tackling the problem of corruption by adopting a new National Strategy on Increasing Transparency and Combating Corruption and an ethics code for civil servants.

¶7. The New Anti-Corruption National Strategy, set to run from 2007 to 2011, replaces and expands upon Azerbaijan's previous State Program on Combating Corruption. The new National

Strategy commits the GOAJ to undertake a number of important reforms in a wide range of areas, including adopting a comprehensive anti-money laundering/counter terrorist financing law, increasing accountability in government purchasing, improvement in the operations of the anti-corruption commission, streamlining government licensing and regulation, and increasing transparency throughout government operations. Shortcomings in its intellectual property rights laws and enforcement of such laws resulted in Azerbaijan being placed on the U.S. Special 301 Watch List from 2000 to 2005; however, Azerbaijan was removed from the Watch List in 2006 due to steps taken to enforce intellectual property rights enforcement. Azerbaijan remained off the Watch List in 2007.

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A.1. OPENNESS TO FOREIGN INVESTMENT  
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¶8. The Government of Azerbaijan officially welcomes foreign direct investment, recognizing that it plays a vital role in development of the country's economy. Since 1994, Azerbaijan has attracted significant amounts of foreign investment to develop further its energy sector. However, government bureaucracy, weak legal institutions and predatory behavior by politically connected monopoly interests have severely hindered investment outside of the energy sector. The 2008 World Bank/IFC "Doing Business" report ranks Azerbaijan at 96 (out of 178), an improvement of five positions compared to the previous ranking when taking into account that two countries were added to the ranking in 2008. Azerbaijan's improvement is primarily due to the creation of a one-stop-shop for business registration at the Ministry of Taxation.

¶9. The Law on Protection of Foreign Investments permits foreign direct investment (FDI) in any activity open to a national investor unless prohibited by law. Prohibited areas include those relating to national security and defense. The government carefully controls other key sectors, such as energy and communications. In the past, the process of investment in the oil and gas sector has been to conclude a

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Production Sharing Agreement (PSA) with the State Oil Company of Azerbaijan (SOCAR), which is subsequently ratified by parliament. The establishment of a Ministry of Fuel and Energy, renamed the Ministry of Energy and Industry (MEI) in 2004, has not meaningfully changed this procedure, although the MEI has been given nominal responsibility for conclusion of PSAs. A limitation on FDI in the banking sector was reduced when the National Bank of Azerbaijan (NBA) increased the limit on participation of banks with foreign ownership from 30 to 50 percent of the commercial banking market.

¶10. Azerbaijan is not yet a member of the World Trade Organization, but the Government, with U.S. and international technical assistance, has been working to draft new legislation. The Ministry of Economic Development has been tasked to lead the WTO accession process. The Government expects to start WTO negotiations in 2009. Creating a stable and predictable business environment is especially crucial for attracting investment to the non-energy sector. At present, however, Azerbaijan remains a challenging market in which to do business. Following international recommendations, the Government of Azerbaijan established a new business registration mechanism on principles of a one-stop-shop at the Ministry of Taxation. The time to register new businesses has dropped from several weeks to three days.

¶11. Under Azerbaijani law, foreign investors may participate in the Azerbaijani market through joint ventures with local companies, establishment of subsidiaries wholly owned by foreign investors, and representative offices and branches of foreign legal entities. The Law on Protection of Foreign

Investments provides that the Azerbaijani government will treat foreign investors in a manner "not less favored" than the treatment accorded to local investors. This law provides for repatriation of profits, revenues, and other investment-related funds so long as applicable Azerbaijani taxes have been paid. The law also provides a 10-year grandfather clause in the event new legislation less favorable to the foreign investor is adopted. However, this provision does not apply to changes in tax legislation.

¶12. While the Azerbaijani government employs no formal screening mechanisms for general foreign investment, the process of registering an enterprise with the Ministry of Justice serves as a de facto screening process. Although by law required only to determine that documents of enterprises seeking registration are in order, the Ministry operates in a non-transparent and arbitrary manner. Credible reports indicate that ministry officials make extra-legal determinations of whether individual foreign investments are of an appropriate nature before making decisions about registration. Some investors have alleged that they have received demands for bribes when attempting to register their enterprises.

¶13. In September 2005, a presidential decree transferred control of privatization from the Ministry of Economic Development to an autonomous State Agency for Privatization. Implementation of a second stage privatization program, which began in 2001 and could include some of Azerbaijan's largest state-owned enterprises, has been slow. Foreign investors may participate, though it is not clear what role vouchers and options purchased previously by foreigners will play in these and other privatizations. Several attempted privatizations or placements of large state enterprises under private management failed for lack of qualified bidders. In general, participation in the privatization program continues to be hindered by a lack of resources to properly prepare assets for privatization, as well as insufficient information about the assets of enterprises to be privatized. The Government of Azerbaijan announced at the end of 2007 that the validity of privatization vouchers had been extended until 2010.

¶14. The Ministry of Economic Development maintains a web site with information about investment opportunities available in English, Azerbaijani and Russian ([www.economy.gov.az](http://www.economy.gov.az)). The Azerbaijani Export & Investment Promotion Foundation (AZPROMO) (<http://www.azpromo.az/>) is a joint Public Private Initiative established by the Government of Azerbaijan in ¶2003. AZPROMO is empowered to play a key role in

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public-private dialogue serving as a bridge between investors, local producers and the Government. AZPROMO is an independent organization with the key objective to contribute to achieving balanced development of the economy of the country and to implement measures necessary for the attraction and promotion of inflow of investments for creation of new jobs, particularly in its rural regions within the poverty reduction strategy framework. In August 2005, AZPROMO was also empowered with the mandate to promote export of local non-energy sector products.

¶15. The Azerbaijan Investment Company (AIC) is a state-owned joint-stock company, established by presidential decree in 2006, in order to promote investment in the non-oil sector. Key priorities of AIC are to participate in joint-venture projects (especially export-oriented and import substitute) of Azerbaijani enterprises and to promote local and foreign investments in the non-oil sector. AIC's investment decisions are based on the analysis of business plans, description of effectiveness of organization's commercial activity, experience and achievements of shareholders of potential partners. AIC invests in both existing and newly-established joint-ventures.

## A.2. CONVERSION AND TRANSFER POLICIES

¶116. Azerbaijan has a liberal exchange system, and, in general, there are no restrictions on converting or transferring funds associated with an investment into freely usable currency and at a legal, market-clearing rate. Conversion is carried out through the Baku Interbank Currency Exchange Market and the Organized Interbank Currency Market. The Baku Electronic Currency Exchange System (BEST) was launched in July 2002. Cash exchange is carried out at numerous currency exchange points and no difficulties exist in obtaining foreign exchange.

¶117. Since 2001, the NBA has required that cash transactions be conducted in Azerbaijani manats. In 2006, the NBA completed the denomination of the national currency, and starting from January 2007 new Azerbaijani manats (1 AZN equals 5000 old Azerbaijani manats are the only legal cash tender. The average delay for remitting investment returns is two to three business days. Additional requirements relating to the disclosure of the source of currency transfers have been imposed in an attempt to reduce illicit transactions. The Parliament amended legislation in 2007 to eliminate custom duties for cash currency exports, a move that is in-line with a WTO requirement and is believed to help ease inflationary pressures. The Tax Ministry has occasionally frozen bank accounts of companies that it believes have failed to meet their tax obligations.

## A.3. EXPROPRIATION AND COMPENSATION

¶118. The Law on Protection of Foreign Investments protects foreign investors against nationalization and requisition except under certain specified circumstances. Nationalization of property to prevent harm to the population or damage to state interests of Azerbaijan is possible by parliamentary resolution. Requisition by a decision of the Cabinet of Ministers is possible in the event of natural disaster, epidemic, or other extraordinary situation. In the event of nationalization or requisition, foreign investors are entitled by law to prompt, effective, and adequate compensation. There have been no cases of nationalization or requisition against foreign firms in Azerbaijan.

## A.4. DISPUTE SETTLEMENT

¶119. Dispute settlement mechanisms are improving in Azerbaijan, but effective means of protecting and enforcing property and contractual rights are by no means assured. While the Azerbaijani government does not officially interfere in the court system, in practice courts are weak, judges often inexperienced, and progressive new tax and other

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economic legislation poorly understood. The Economic Court, which has jurisdiction over commercial disputes, is weak, widely regarded as corruptible, and its decisions are often inconsistent. The Civil Procedure Code of September 2000 sets forth basic civil legislation.

¶120. Since 2000, the Law On International Arbitration provides for the possibility of local arbitration in international commercial matters. However, in practice arbitration is seldom used to resolve disputes. A Bilateral Investment Treaty between the U.S. and Azerbaijan, which came into effect in 2001, provides U.S. investors with recourse to the International Center for the Settlement of Investment Disputes. Azerbaijan is a party to the World Bank Convention on the Settlement of Investment Disputes between States and Nationals of Other States and is also a member of the

Multilateral Investment Guarantee Agency (MIGA). Azerbaijan is also a party to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards, which provides for binding international arbitration of investment disputes between foreign investors and the state. The Civil Procedure Code provides that foreign arbitral awards may be enforced in Azerbaijan so long as they do not contravene legislation or public policy, and if reciprocity exists. Azerbaijan's bankruptcy law does not function effectively and is rarely used.

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A.5. PERFORMANCE REQUIREMENTS AND INCENTIVES  
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¶21. Azerbaijan has not yet developed effective incentives to attract foreign investment, other than the incentives provided by Production Sharing Agreements in the oil and gas sector. Performance requirements are not imposed on new investment, but investors who participate in the privatization process of enterprises often assume specific obligations regarding future investment and employment. Foreign investors are not required to purchase from local sources or export a certain percentage of output. Except for those state monopolies identified above, there is no requirement that nationals own shares in enterprises. Investors in PSAs assume obligations and requirements as provided within the PSA.

¶22. There are no legal requirements for employment of host country nationals. Employers wishing to hire foreign workers in Azerbaijan must obtain a license from the Ministry of Labor. Foreigners who wish to work in Azerbaijan must register with local authorities at their place of residence and obtain work permits from the Ministry of Labor. Foreign workers in Azerbaijan are subject to income taxes and Social Protection Fund contributions. Heads of representative offices and branches of foreign legal entities and their deputies do not require work permits. In 2008, the Government expects to introduce a work visa for all immigrant employees.

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A.6. RIGHT TO PRIVATE OWNERSHIP AND ESTABLISHMENT  
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¶23. Under Azerbaijani law, foreign investors may engage in investment activities not prohibited by law. Private entities may freely establish, acquire, and dispose of interests in business enterprises. In practice, access to markets, credit and other business operations is often impeded by licensing and other regulatory requirements and by politically connected business interests that can mobilize the powers of the state to their advantage. In sectors of interest to certain senior government and political figures, competition is not tolerated.

¶24. Legislation regulating real property rights include the Law on Mortgage (2005), Land Code of the Republic of Azerbaijan (1999), the Law on Land Reform (1996), the Law on Land Leasing (1999), and the Law on Land Market (1999). Azerbaijani citizens and Azerbaijani legal entities, including enterprises with foreign investment, can legally own, buy, sell, and trade property. Foreign citizens and enterprises may lease, but cannot own, land.

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A.7. PROTECTION OF PROPERTY RIGHTS  
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¶25. Secured interests in property, both movable and real, are technically recognized. While the Government, together with World Bank, has been working to improve the property registration system, the system is filled with bureaucratic requirements and is generally seen as corrupt and

inefficient. In 2006, the Government centralized processing of residential real estate transactions through a network of notary offices under the Ministry of Justice.

¶126. In the mid-1990s, Azerbaijan began implementing a national system for registering and protecting intellectual property rights with the assistance of the World Intellectual Property Organization (WIPO), of which it is a member. Azerbaijan enacted modern copyright legislation (Law on Copyright and Related Rights) in 1996, patent legislation (Law on Patents) in 1997, and trademark protection legislation (Law on Trademarks and Geographic Names) in 1998. Azerbaijan is a party to the Convention Establishing the World Intellectual Property Organization, the Paris Convention for Protection of Industrial Property, and the Berne Convention for the Protection of Literary and Artistic Works. Azerbaijan is also a party to the Geneva Phonograms Convention, and acceded to the two WIPO Internet treaties in ¶2005.

¶127. The State Copyright Agency has formed an anti-piracy commission, with representatives from various ministries. While the Agency has made some progress by conducting raids and initiating civil court proceedings for violation of copyrights, in practice, there is limited enforcement of intellectual property rights. Pirated software and movies, as well as knock-off clothing and luxury items, are widely available in Azerbaijan. Shortcomings in its intellectual property rights laws and enforcement of such laws resulted in Azerbaijan being placed on the U.S. Special 301 Watch List every year from 2000 to 2005. Improvements in IPR enforcement, however, resulted in Azerbaijan's removal from the Watch List in 2006. Azerbaijan remained off the Watch List in 2007. Azerbaijan became a member of the World Intellectual Property Organization (WIPO) Performances and Phonograms Treaties (WPPT) and Copyright Treaty (WCT) in April 2006.

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#### A.8. TRANSPARENCY OF THE REGULATORY SYSTEM

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¶128. Although the Azerbaijani government has improved its regulatory system in the past several years, lack of transparency and allegations of corruption remain key problems in this area. The lack of transparent policies and effective laws to establish clear rules and foster competition are particularly serious impediments to investment. Informal bureaucratic control mechanisms often impede with application of laws and regulations and hinder competition.

¶129. While laws and decrees are usually published in one of the country's official newspapers, implementation is often delayed while regulations are developed. Those regulations in many cases are not published or distributed. Despite some improvement in recent years, many persons doing business in Azerbaijan continue to complain that bureaucratic procedures contribute to long delays in gaining necessary permits and licenses.

¶130. Azerbaijan has announced plans to adopt 29 national accounting standards to be in-line with International Financial Reporting Standards (IFRS) by 2009. Audited financial statements have only been adopted in banking and finance, where foreign ownership is most advanced.

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#### A.9. EFFICIENT CAPITAL MARKETS AND PORTFOLIO INVESTMENT

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¶131. As of December 2007, there were 43 banks and 94 non-bank credit organizations in Azerbaijan. Two more banks have been granted banking licenses and are expected to start operations

soon. The banking sector is dominated by the International Bank of Azerbaijan (IBA), which controls more than 50 percent of the banking sector. Foreign ownership in the banking sector is limited to 50 percent on an aggregate basis. There are 18 banks with foreign capital. As of November 2007, Moody's Weighted Average Bank Financial Strength Rating for Azerbaijan was "E".

**¶132.** According to the National Bank of Azerbaijan (NBA), as of September 2007, total assets of Azerbaijan banks grew 54 percent and reached AZN 5821.4 million. Total capital of banks grew by 77 percent and reached AZN 1 billion as of December 1, 2007. Deposits grew by 39 percent and reached AZN 3100 million. Azerbaijan in 2007 established the National Depository Insurance Fund, which, as of December 2007, has 37 banking members.

**¶133.** The NBA has taken steps to improve bank supervision and raise capital requirements. The capital requirement for banks is currently set at AZN 10 million (roughly USD 11.7 million). A presidential decree requires installation of point of sale (POS) terminals in all shops within two years beginning in January 2006. Despite some progress in installation of POS terminals, the vast majority of stores and restaurants do not carry POS terminals or, if they do, avoid running card transactions to minimize taxation. The Baku Interbank Currency Exchange (BICEX) carries out interbank auctions of foreign exchange. Treasury bill auctions are conducted by the Baku Stock Exchange, which was established in 2000. Since then, the number of participants and volume of transactions have increased, but this is not yet a truly competitive market.

**¶134.** In February 2007, Fitch Ratings upgraded Azerbaijan's long-term issuer default rating to BB with a stable outlook. Moody's issuer rating for Azerbaijan is Ba1.

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#### A.10. POLITICAL VIOLENCE

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**¶135.** There have been no acts of political violence against U.S. businesses or assets, nor against any foreign-owned entity. The risk of political violence affecting foreign investors remains minimal. In 2006 and 2007, the Azerbaijani authorities arrested two separate groups that were accused of plotting terrorist acts against Western interests. Police periodically uses force to disperse unauthorized demonstrations or spontaneous acts of public discontent; police also used force to break up a peaceful protest following parliamentary elections in 2005.

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#### A.11.a. CORRUPTION

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**¶136.** Corruption is a significant deterrent to investment in Azerbaijan, especially in the non-energy sector. Corruption is a significant deterrent to investment in Azerbaijan, especially in the non-energy sector. Laws and regulations that exist to combat corruption are not effectively enforced, with corruption in the regulatory, tax, and dispute settlement systems most pervasive. Problems in the quality, reliability, and transparency of governance, as well as abuse of the regulatory system and poor contract enforcement, significantly impede the ability of many companies to do business in Azerbaijan. These problems have driven many companies, including some major Western firms, from the market. In the summer of 2007, the government took several positive steps aimed at tackling the problem of corruption by adopting a new National Strategy on Increasing Transparency and Combating Corruption and an ethics code for civil servants. The New Anti-Corruption National Strategy, set to run from 2007 to 2011, replaces and expands upon Azerbaijan's previous State Program on Combating Corruption. The new National Strategy commits the GOAJ to undertake a number of important reforms in a wide range of areas, including adopting a comprehensive anti-money laundering/counter

terrorist financing law, increasing accountability in government purchasing, improvement in the operations of the anti-corruption commission, streamlining government licensing and regulation, and increasing transparency throughout

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government operations.

¶37. According to Transparency International, the situation in Azerbaijan worsened in 2007 and the country ranked 157 out of 180 countries, compared to 130 of 163 in 2006. Corruption appears most pervasive in the regulatory, tax, and dispute settlement systems; business officials indicate that their dealings with the State Customs Committee and Ministry of Taxation pose the greatest concern. Throughout the country, problems in the quality, reliability and transparency of governance, as well as abuse of the regulatory system and poor contract enforcement, significantly impede the ability of many companies to do business in Azerbaijan and have driven many companies, including some major Western firms, from the market.

¶38. In the past several years, politically connected businesses appear to have benefited from government regulatory and other decisions to achieve effective control over several lucrative sectors of the economy, and U.S. investors have been among those victimized. Currently, powerful state-owned enterprises, such as the Azerbaijan State Caspian Shipping Company (CASPAR) and the State Airlines (AZAL), have protected their commercial interests by blocking entrance of new entrants into the market through the exercise of their regulatory authority -- a clear conflict of interest. A focus of current international community work in Azerbaijan is combating corruption and improving governance. In 2004, Azerbaijan joined the Council of Europe's Group of States against Corruption (GRECO), but Azerbaijan is not a signatory to the OECD Convention on Combating Bribery.

¶39. In 2004, Azerbaijan adopted an implementation plan for the Extractive Industries Transparency Initiative (EITI) to promote more transparent management of oil revenues. See Introduction, above.

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#### A.11.b. BILATERAL INVESTMENT AGREEMENTS

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¶40. On October 18, 2000, the U.S. Senate ratified the Treaty Between the Government of the United States of America and the Government of the Republic of Azerbaijan Concerning the Encouragement and Reciprocal Protection of Investment (commonly known as a "Bilateral Investment Treaty" (BIT)). Azerbaijan and the U.S. exchanged instruments of ratification on July 3, 2001, and the treaty entered into force on August 2, 2001.

¶41. In addition to the above agreement, Azerbaijan has bilateral investment protection agreements with the following countries: Austria, Belgium, Bulgaria, China, Egypt, Finland, France, Georgia, Germany, Greece, Iran, Italy, Kazakhstan, Kyrgyzstan, Latvia, Libya, Moldova, Pakistan, Poland, Saudi Arabia, Switzerland, Turkey, UAE, Ukraine, and the United Kingdom.

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#### A.11.c. OPIC AND OTHER INVESTMENT INSURANCE PROGRAMS

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¶42. OPIC provided USD 100 million in political risk insurance to U.S.-based financial institutions and U.S. equity partners in the Baku-Tbilisi-Ceyhan oil pipeline. In 2002, OPIC invested USD 50 million in Soros Investment Capital for projects targeted to all three Caucasus countries. OPIC also disbursed a USD 4.6 million loan to Caucasus Airlines, a regional air carrier based in Tbilisi. Caucasus Airlines ceased operations in late 2004 after a dispute arose with

Azerbaijan's state air carrier AZAL over terms on the Baku-Tbilisi route. In 2005, OPIC provided financing to Baku Oil Tools for a joint venture with the State Oil Company, SOCAR. In 2006, OPIC provided USD 7.5 million to ShoreBank International Ltd for SME and mortgage loan portfolio expansion in Azerbaijan.

¶43. In March 2004, the Export-Import Bank of the United States (Ex-Im Bank) provided a USD 19.3 million loan guarantee to Saba, Inc., a mid-sized U.S. company, for engineering, design, and construction services to build a business and residential center in Baku.

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A.11.d. LABOR  
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¶44. Azerbaijan has an abundant supply of qualified, trained technicians and skilled and unskilled laborers at attractive rates to employers. At the same time, companies cite increasing problems with hiring skilled professional staff, which could be result of a decline in quality education and labor emigration. The collapse of the old Soviet industrial sector in this country during the 1990s resulted in large numbers of Azerbaijanis becoming unemployed or underemployed. Government sources estimate the rate of unemployment at seven percent, but other sources quote up to twenty percent or more, with underemployment much higher. The Government has announced plans to increase the minimum monthly wage increased from AZN 40 to AZN 60 in 2008. A Labor Code that took effect in 1999 regulates labor relations. The workweek is generally forty hours, the right to strike exists, and industrial strikes occur occasionally. Azerbaijan is a member of the International Labor Organization and has ratified more than 50 ILO Conventions. Azerbaijan is currently engaged with the World Bank in a program to reform the state pension system.

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A.11.e. FOREIGN TRADE ZONES/FREE PORTS  
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¶45. Although the government announced in 2003 its intention to create special economic zones, there are currently no foreign trade zones or free ports operating. The Ministry of Economic Development has announced plans to create a special economic zone near the new port to be completed in 2012. The Ministry of Communication and Information Technologies has conducted a feasibility study to create Regional Innovation Zones with an aim to boost development of the sector and to turn Azerbaijan into a regional information and communication technology hub.

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A.11.f. FOREIGN DIRECT INVESTMENT STATISTICS  
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¶46. Below numbers are provided by the State Statistical Committee of Azerbaijan.

Investments (million USD)

	2004	2005	2006	2007
Total investments:	5922.7	6669.6	8137.8	N/A
Foreign investments:	4575.5	4444.3	5052.8	5160.0
Domestic investments:	1347.2	2225.3	3085.0	N/A

FDI (million USD)

	2004	2005	2006	2007*
Total	4575.5	4444.3	5052.8	5160.0
Foreign companies and joint ventures	104.2	230.5	368.4	276.9
Turkey	80.1	96.2	136.6	78.8
USA	8.4	24.8	70.0	48.1

Iran	N/A	1.2	17.5	2.8
Germany	2.1	21.5	17.4	19.5
Russia	1.8	5.1	4.6	9.6
United Kingdom	4.2	39.5	39.1	70.5
UAE	4.4	5.7	18.3	10.2
France	2.2	2.6	11.1	4.0
China	N/A	0.2	1.3	N/A
Italy	N/A	4.6	2.8	7.0

NOTE: 2007 data is January-September 2007.

**¶47. Major Foreign Investors:**

Significant foreign investors in the energy sector include BP, Unocal, ExxonMobil, Devon Energy (Pennzoil), TPAO, Statoil, Lukoil, Itochu, Agip, ChevronTexaco, ENI, Halliburton, Schlumberger, Kvaerner, and Aker Maritime (Technip-Coflexip). Significant non-energy investments include Garadagh Cement, Castel (brewery), Coca Cola, Pepsi Cola, Azercell (mobile telephony), Bakcell (mobile

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telephony), Azerfon (mobile telephony), and Hyatt Hotels Baku.

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